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C O N F I D E N T I A L SECTION 01 OF 03 KYIV 002383

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SUBJECT: GOU RAISES THE STAKES AGAINST IATA, AND BACKS DOWN  
TEMPORARILY

REF: A. KYIV 1974

[1](#)B. MOSCOW 4526

Classified By: Economic Counselor Douglas R. Kramer; reasons 1.4(b) and  
(d)

Summary

[1](#)1. (C) On August 30 the GOU suspended all cross border activities of the International Air Transport Association (IATA) in its latest move against the world airline industry's trade group. In a subsequent meeting with the Ambassador, however, Minister of Economy Anatoly Kinakh agreed to stop implementation of the order until October 5. Foreign airlines and the EU also voiced their concern to the GOU leadership. Meanwhile, IATA has agreed to address the concerns of the GOU, which claims that the ticket blanks IATA provides to local travel agents violate Ukrainian laws (ref A). Airlines' ticket sales are not currently affected, but could become seriously disrupted if the GOU order should go into effect later. Industry reps in Kyiv believe that the ticket issue is only a facade for the GOU's engagement on behalf of local business interests that want to target the large cash flows generated by IATA's state of the art ticketing and billing system. Our contacts are unsure to what degree IATA's troubles in Kyiv might be related to the trade group's problems in Russia (ref b). End summary.

MinEcon Suspends IATA's Cross-Border Business

[1](#)2. (SBU) The GOU has increased the stakes in its ongoing dispute (ref A) with the International Air Transport Association (IATA). On August 30 the Ministry of Economy suspended all of IATA's cross-border economic activities, ostensibly because of what it felt was IATA's continued refusal to bring its paper tickets into compliance with Ukrainian law. International air carriers, the EU and the Embassy all intervened on IATA's behalf. During a September 3 meeting with the Ambassador, Minister of Economy Anatoly Kinakh agreed to suspend implementation of the order until October 5. For now, ticket agents in Ukraine continue to use IATA's ticket blanks, and IATA is free to conduct cross border transactions.

13. (SBU) As reported in ref A, the GOU argues that, according to Ukrainian law, that IATA must register the ticket blanks with the Ministry of Finance for tax identification reasons. IATA provides the ticket blanks to travel agents throughout the country as part of its services to member airlines. IATA has challenged the GOU view in court but lost on repeated occasions. IATA finally decided to move forward with the registration after the Ministry of Economy issued its suspension order. IATA country representative Sergey Martynyuk told us that he provided the Ministry of Finance with all the necessary documentation. The ministry has asked for the input of the State Aviation Administration (SAA), which has said it will respond after meetings scheduled with IATA on September 27-28 in Kyiv. Martynyuk interpreted this response as SAA stalling tactics, arguing the SAA had no intention of approving IATA's tickets as the October 5 deadline approaches. Martynyuk and Delta's representative in Ukraine Dan Fenech remain concerned that the SAA still might try to torpedo the registration, as it had repeatedly challenged IATA ever since IATA introduced its BSP system into Ukraine.

#### The Consequences of the Order

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14. (SBU) The Ministry of Economy order only pertained to IATA's cross-border transactions, and not to its domestic activities. It would have prevented IATA from transferring goods, services or funds across Ukraine's borders, and from using its ticket blanks with its accredited travel agents, because, in the view of the Ministry of Economy, these blanks were not registered and hence not legally in the country. Most importantly in the view of member airlines in Kyiv, the order would not have affected IATA's Billing and Settlement Plan (BSP), which domestic and foreign airlines use to sell

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electronic and paper tickets and collect the proceeds through travel agents. The order would also not have affected the activities of airlines, which would have remained free to transfer funds across Ukraine's borders.

15. (SBU) Several airlines had told us that they already made preparations had IATA been unable to use its ticket blanks in Ukraine. Most airlines had their own ticket blanks in stock that they would have distributed to travel agents. This procedure would have greatly complicated airlines' business, however, as they would have needed to collect the proceeds from the ticket sales directly from agents. The BSP system, in contrast, prints a ticket for agents using IATA blanks and automatically collects proceeds from agents for direct transfer to the airlines. The GOU order, had it been implemented, would have most likely accelerated the industry's move towards electronic ticketing, which already accounts for the bulk of airlines' business in Ukraine (Delta, for example, sells 95 percent of its tickets in electronic form) and which IATA members will all use exclusively beginning in May 2008. As reported in ref A, however, electronic tickets could also encounter trouble with GOU authorities.

16. (SBU) The legal status of their own ticket blanks remains a serious concern for airlines. Although the GOU has targeted IATA's ticket blanks, it has not yet called into question those used by foreign airlines, none of which have been registered with the Ministry of Finance. According to Delta's Fenech, authorities at the Ministries of Finance and Economy and the SAA told airlines that Ukrainian law made a distinction between legal documents issued by a company selling a service, such as an airline, and those documents issued by third parties, such as IATA, on behalf of such companies. During a September 7 meeting with airline reps, however, a Ministry of Finance official said that airline ticket blanks might also be illegal, Fenech said.

Why is the GOU Harassing IATA?

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17. (C) None of our contacts say they know for sure why the SAA is troubling IAA, but all assume that it is doing so on behalf of Ukrainian business interests that ultimately hope to target the significant cash flows generated by the BSP system. BSP services 24 airlines and 246 sales agents in Ukraine and generates 75,000 tickets monthly. KLM/Air France rep Arvin Alagh told us that several players familiar with the industry were hoping to develop an alternative system to BSP. These persons, which included former officials of the airline reservation system Galileo and of one of Ukraine's air traffic control agencies, had likely bribed the SAA to take action against IATA, Alagh said. Others speculated that the SAA might also be acting on behalf of a Ukrainian printing company, or companies, that would benefit if IATA were forced to purchase ticket blanks printed locally that purportedly already conformed to Ukrainian law.

#### IATA's Problems in Ukraine and Russia

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18. (C) Our contacts are also unsure how IATA's problems in Ukraine might be related to those it is facing in Russia, as reported ref B. Unlike in Russia, where IATA's BSP system is competing head to head with the Transport Clearing House (TCH) system, IATA did not tread on any local clearing system's market turf when it introduced BSP in 2006. Before BSP, foreign airlines used their own ticket blanks and collected proceeds directly from travel agents. Ukrainian International Airlines and Aerosvit at that time both used a small, highly manual and paper-driven settlement system linked to the SAA. Both Ukrainian airlines now employ BSP, but still use the old system in parallel, IATA's Martinyuk told us. Aeroflot, which we understand dropped out of BSP in Russia, continues to use the system in Ukraine, he added. Martinyuk doubted whether the proprietors of the old system could actually hope that they could compete with IATA.

19. (C) Given the parallel timing of IATA's problems in both countries, however, our contacts do believe that there could be some sort of linkage. In both Russia and Ukraine,

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authorities are targeting what they claim are the incompatibilities of IATA's ticket blanks with national law. Fenech observed that while the players in Ukraine may have their own goals, they could be using tactics that TCH in Russia may be observing, and supporting, for eventual use in Russia's bigger market.  
Taylor